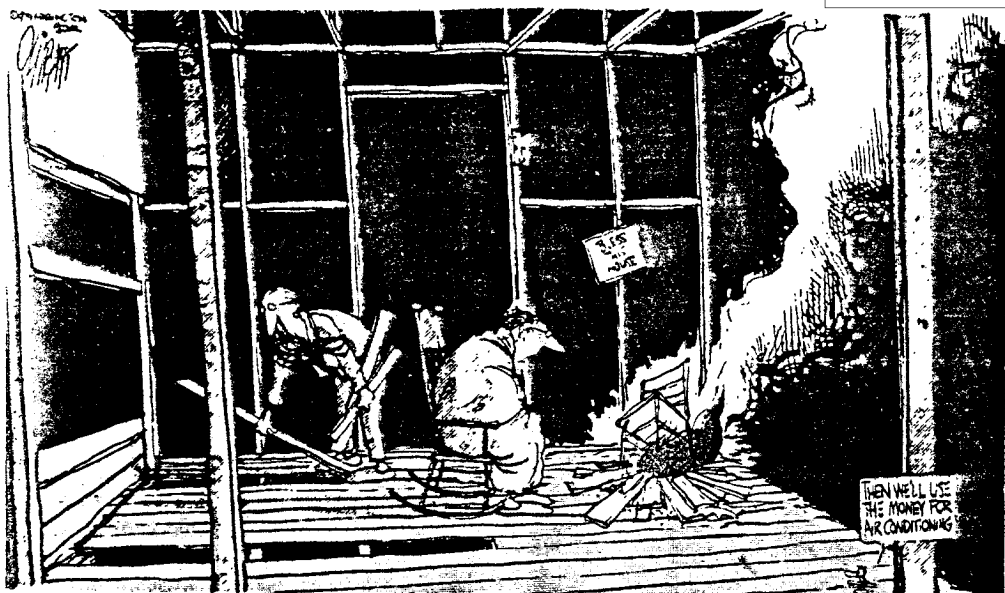


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Oliphant © 1979 Washington Star

'... then they'll finally agree to help the old and poor with the winter fuel bills, then bureaucrats will write the checks, then they'll give them to the Postal Service to deliver, and by then it'll be summer...'

world's twenty largest oil companies accounted for 80 per cent of all free-world oil trading. Acting as middlemen with the ability to swap supplies among themselves on a global scale, they were able to maintain an efficient worldwide flow of crude. Since then, however, OPEC has attempted to break the oil companies' control of the international pipeline by barring the swap arrangements that they had used to keep the system in balance. As a result, the companies' share of the trade has slipped to about 50 per cent—and much of the slack has been taken up by speculators and small traders operating in the spot markets of Rotterdam, Singapore, London and the Caribbean. "This shift," says Energy Department analyst John Treat, "drives prices up and makes the oil markets more susceptible to panic and uncertainty."

It also provides an irresistible temptation to oil producers. In recent months, Algeria, Nigeria, Iran and

Iraq have all been diverting crude to the spot markets, where they can sell it for far more than OPEC or oil-company contracts would allow. Iran, which now sells nearly a quarter of its daily output on the spot markets, is perhaps the worst offender. Last week, British Petroleum was forced to buy more than 7 million barrels of crude at spot prices ranging from \$35 to \$40 a barrel. According to U.S. sources, Iran also threatened to cancel its 1980 BP contracts if BP refused to buy some Iranian crude at spot prices.

On top of everything else, the continuing

Los Angeles rally: Tiny turnout

A. Ace Burgess—Ace's Angels



THE NEXT OIL CRUNCH

I think we are losing control of everything.
—Saudi oil minister Ahmad Zaki Yamani

Not too long ago, Saudi Arabia dominated the Organization of Petroleum Exporting Countries—and, through it, determined the shape of the world oil market. But as Sheik Yamani warned last week, that time is gone. In the past fortnight, as prices on the volatile spot markets soared to nearly twice the official OPEC limit, five cartel members announced unilateral increases in their own oil prices. And last week, Libya broke the \$23.50-a-barrel ceiling established at the OPEC meeting just last June. "OPEC has lost control over pricing," says John Lichtblau of the Petroleum Industry Research Foundation in New York. "OPEC was founded to put a floor on oil prices, but today the question is of a ceiling—and it looks as if it can't function this way."

The apparent free-for-all within OPEC is bad news for the U.S. and other major consuming nations. The cartel seems bound to raise the official price of crude, perhaps by as much as 15 per cent, at its next regular meeting on Dec. 17 in Caracas. By the beginning of next year, the average retail price of home heating oil in the U.S. could be as high as 90 cents a gallon—nearly twice what it was last January (chart, page 38). Higher fuel prices not only mean higher inflation rates for America, they also will cut sharply into the nation's purchasing power—adding to the likelihood of painful recession. And though current stocks of heating oil and gasoline seem adequate, they may not stay that way much beyond the coming winter. "We are living today in an era of great fragility in the supply of energy," CIA director Stansfield Turner

said last week. "It is easy to predict some form of turmoil [in the Mideast] that will upset the supply of energy."

The possibility of a major supply crunch early next year seems to worry Congress far more than the prospect of higher energy prices. To spur production and encourage conservation, Congress has gone along with President Carter's decontrol of oil prices—a politically unthinkable act not long ago. Congress is also moving closer to passing the windfall-profits tax, earmarking at least half of the multibillion-dollar proceeds for synthetic fuels, mass transit and tax credits for conservation. The move in Congress reflects the belief that the public, while angry over high fuel prices, is far more worried about supply disruptions. That was the message of last summer's gasoline lines, experts say. And it was echoed again last week when a nationwide series of rallies called by a coalition of union, consumer and senior-citizens groups known as the Campaign for Lower Energy Prices drew surprisingly small crowds.

CHANGES: The worrisome outlook for oil supplies is in large part the result of recent and profound changes in the global oil trade. For one thing, Saudi Arabia no longer has much power to exert a moderating influence over the rest of OPEC. In the past, Saudi Arabia could hold the price line by flooding the market with increased production from its vast crude reserves. But at a rate of 9.5 million barrels a day, the Saudis are already pumping at close to capacity. Then, too, the leverage of such OPEC "hawks" as Libya and Algeria has been buttressed by America's need for their "light and sweet" low-sulfur crude.

At the same time, there has been a major shift in trading patterns. Five years ago, the

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NATIONAL AFFAIRS

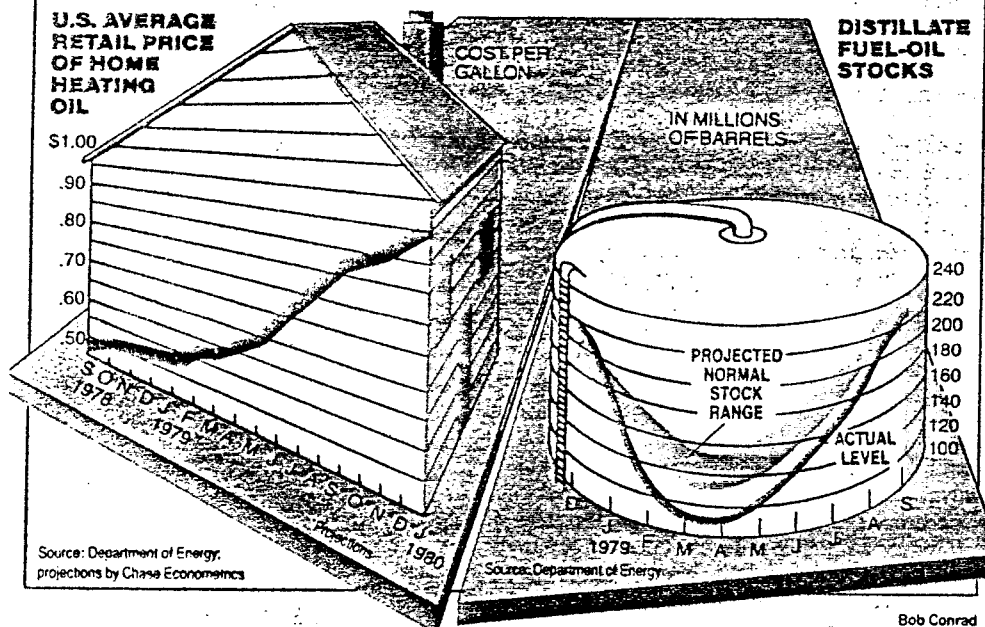
political instability in Iran and Iraq has created what Yamani calls a "psychological climate" of extreme nervousness over the supply outlook. Uncertain about how much oil they will be able to purchase tomorrow, oil companies, traders and speculators are buying all they can today—pushing up prices even further. Not even the prospect of a recession holds any promise of a break in prices. The oil exporters have learned to adjust their production to the ripples in world demand—and with spot prices soaring, they no longer need high-volume sales to produce big revenues. Unlike the last recession, which effectively

ity—are still there . . . The chances of having gas lines next year are pretty high because the chances of something going wrong in the oil market are pretty high."

But over a period of years, the energy legislation now threading its way through Congress could encourage both conservation and domestic production. In broad outline, if not precise detail, Carter may well get most of what he wants. Price controls are dead, and last week the Senate Finance Committee finally approved a windfall-profits tax that would raise nearly \$142 billion in revenue over the next decade. Under the Senate plan, about \$70 billion would be used for energy subsidies for low-income families, \$22 billion for energy tax credits

AN EXPENSIVE WINTER AHEAD

There should be enough heating oil available this winter now that the industry has replenished the worrisome low stocks on hand last spring. But prices will be nearly twice as high as they were a year ago.



cut oil prices for two years, the coming one is likely to do no more than allow OPEC members the luxury of keeping more of their oil in the ground.

At the moment, the U.S. enjoys an adequate supply of fuel. Stocks of crude, home heating oil and gasoline are all higher than they were a year ago, and seem sufficient to get the nation through the winter without any major difficulty. But the higher prices will hurt. Experts reckon that just the oil-price hikes announced so far in 1979 will knock at least 1 per cent off real economic growth this year and next, while at the same time adding at least 1.5 per cent to the annual rate of inflation.

'KNIFE EDGE': In the short run, there's little anyone can do about prices or supply. "We're really on a knife edge," says president Robert W. Baldwin of Gulf Refining and Marketing Co. "All the factors that caused last summer's gas lines—limited supplies of crude, limited refinery capac-

ity and \$15 billion for mass transit. The committee bill would have to be reconciled with a House-passed version raising \$273 billion.

Congress is also close to giving its approval to an energy-mobilization board that would provide so-called fast-track procedures to speed the development of alternative energy sources past regulatory roadblocks. And it seems likely to appropriate funds for a major synthetic-fuel program—though one with considerably less money and independence from Congress than Carter had originally proposed.

It will be 1990 before much synthetic fuel is produced, and energy conservation is also a long-term process. For the foreseeable future, the U.S. will have no choice but to continue to rely on imported oil—and that may well mean another oil crunch before next summer.

ALLAN J. MAYER with
JOHN WALCOTT, HENRY W. HUBBARD and
WILLIAM J. COOK in Washington and bureau reports

Bob Conrad